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Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1949

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
F. K. BRADLEY
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
FREDERICK H. MESERVE
MINOT K. MILLIKEN
ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
A. D. CHURBUCK, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
New York

Stores Owned by

MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	Louisville, Ky.
The Castner-Knott Dry Goods Co.	Nashville, Tenn.
Duluth Glass Block Store Company	Duluth, Minn.
The Fair Store Company	Cincinnati, Ohio
Hennessy Company	Butte, Mont.
The Jones Store Co.	Kansas City, Mo.
The Joslin Dry Goods Company	Denver, Colo.
The Lazarus Store, Inc.	Wilkes Barre, Pa.
The Lion Dry Goods Company	Toledo, Ohio
The MacDougall & Southwick Company	Seattle, Wash.
The McAlpin Company	Cincinnati, Ohio
Montgomery Fair Co.	Montgomery, Ala.
The People's Store Company	Tacoma, Wash.
Root Dry Goods Company	Terre Haute, Ind.
Thomas C. Watkins, Limited	Hamilton, Ont., Can.
J. B. White & Co.	Augusta, Ga.
J. B. White & Co.	Greenville, S. C.

Other Stores

31 Junior Department Stores

65 Appliance Stores

●

Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,

April 16, 1949

To the Stockholders of
Mercantile Stores Company, Inc.:

This is the annual report of your Company for the year ended January 31, 1949, presented on behalf of the Board of Directors. In the following paragraphs are given the highlights of the Company's operations and finances.

PROFIT

The net profit for the year was $5,126,725 which was slightly below the profit of $5,158,538 for the previous year. The profit per share of common stock was equal to $3.44 per share compared with $3.47 per share for the previous year. There was no change in the reserve of $1,500,000 which was previously set up for possible decline in market value of inventory and other contingencies. This reserve was provided out of income two years ago and is still included in the balance sheet of January 31, 1949.

C 2

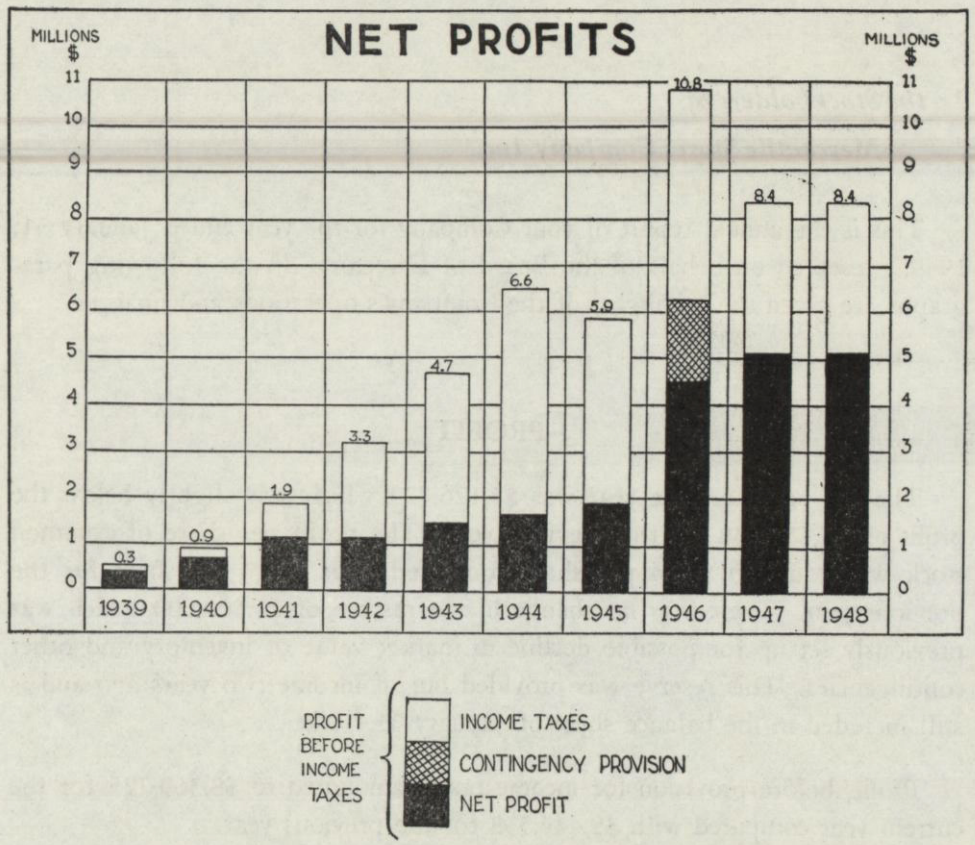
Profit, before provision for income taxes, amounted to $8,369,725 for the current year compared with $8,444,538 for the previous year.

Two factors during the year operated to increase the profit – higher sales and a smaller amount of price reductions (mark-downs); and two factors were present to reduce profit – higher expenses and a slightly lower mark-up percentage

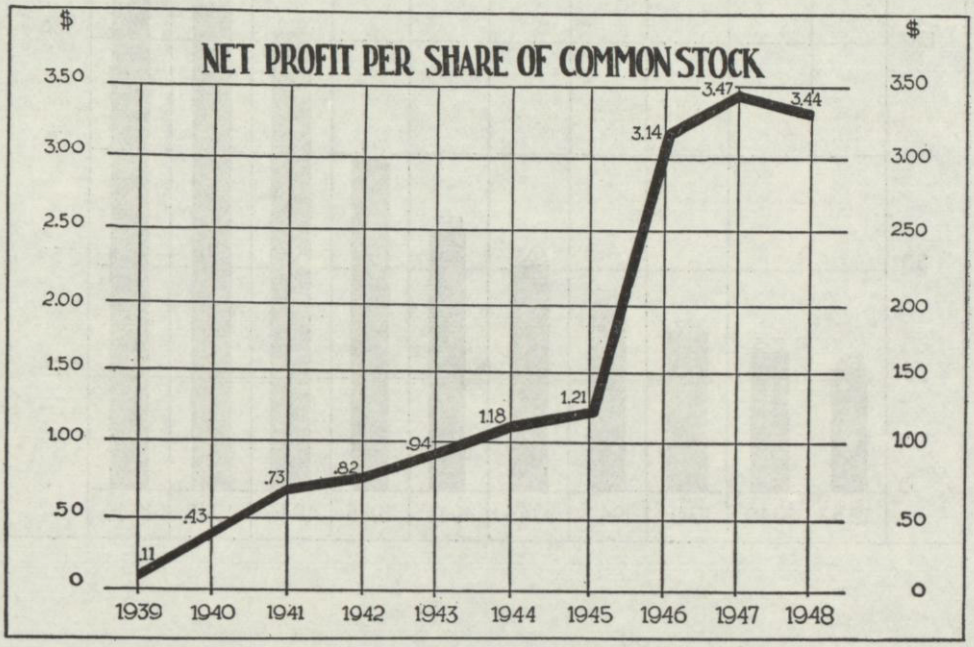
(referring to the profit spread or difference between cost and the retail price put on goods for sale). The two adverse factors outweighed the favorable factors slightly, with the result that the profit was a little smaller than last year.

The expense ratio to sales did rise moderately during the current year, but the expense ratio is still a relatively low one when compared with published figures in our industry.

The following chart shows the profit before income taxes and the final net profit for each of the last ten years.



The net profit per share of common stock, for each of the last ten years, is shown in the chart below (per share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945).

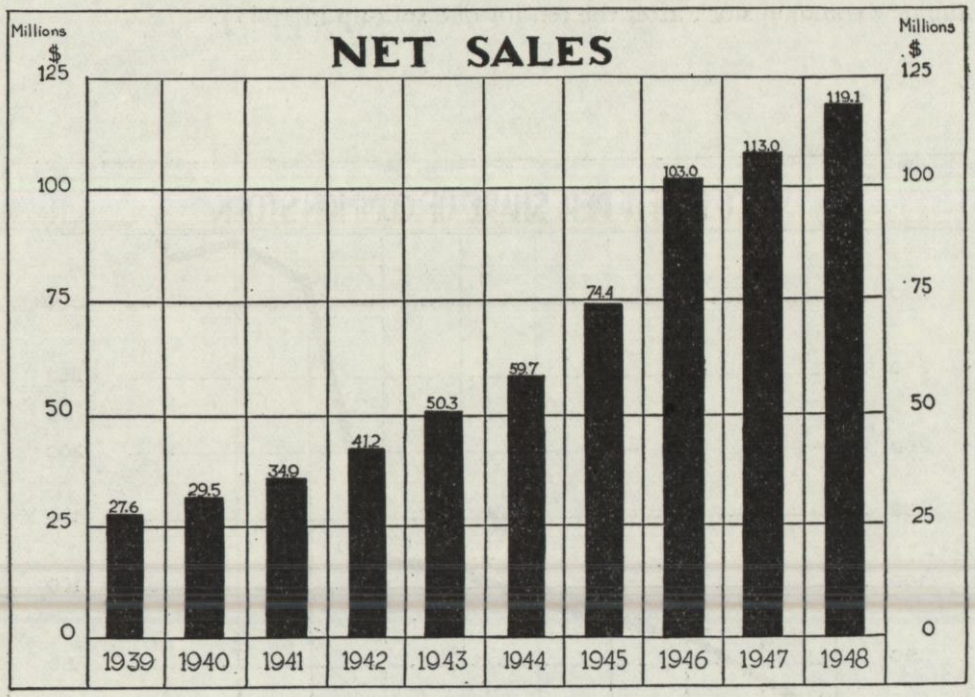


SALES

Sales for the year amounted to $119,091,512 compared with $113,012,702 for the preceding year, an increase of 5.4%.

During 1948 an article was published in a trade paper which listed the ten largest chains, or groups of department stores, in the country for the years 1946 and 1947. The top ten companies each showed a sales volume in excess of $100,000,000 in 1947. Mercantile Stores was ranked tenth in 1946 and had risen to ninth in 1947. No such figures for 1948 are available as this is written. We mention these figures only to give our stockholders some idea of where the Company stands in the industry.

The Chart at the top of the next page shows the sales growth during the past ten years.



For 1948, the percentage of sales increase for the Company was the same as the comparable percentage for department stores throughout the country as reflected in figures published by the Federal Reserve System. For the six consecutive years prior to 1948, the Company increases were larger than such published figures. For the latest five months now available, our Company is again ahead of Federal Reserve figures for each of those months.

DIVIDENDS

The Company paid $1.00 per share in dividends on the common stock during the year ended January 31, 1949 consisting of four quarterly payments of 25¢ per share. This was the same dividend rate as the two preceding years.

On the preferred stock the regular dividend was paid during the year which amounted to $24,701. The Company called for redemption 368 shares of the preferred stock during 1948 and has added these shares to the stock held in treasury.

INVENTORY

Total merchandise inventories at January 31, 1949, were about 3% lower than a year ago. The inventories at the end of the current year amounted to $18,028,742 compared with $18,617,899 for the previous year, a decrease of $589,157. Inventory turnover for the year was 5.3 times compared with 5.6 times for the previous year. The inventory contained only a negligible amount of stock over one year old.

The total amount of price reductions (mark-downs) for the year was somewhat lower than the preceding year but still remained higher than we consider normal, using pre-war years as a yardstick.

Although our inventory was lower than last year at January 31st, and in March, 1949 was still lower than March of a year ago, we believe mark-downs will still be large during the coming year. The current decline in general prices is causing mark-downs which are necessary to adjust the pricing of the inventory to current market conditions. If this decline in general price levels continues throughout the year, we expect mark-downs will be relatively heavy throughout the year. Mark-downs for February and March of 1949 have been quite large.

SALES VOLUME IN OUR STORES

For the year just closed, the sales volume of our seventeen major department stores falls into the following classifications:

$15,000,000 to $20,000,000	— One Store
10,000,000 to 15,000,000	— One Store
5,000,000 to 10,000,000	— Eight Stores
2,000,000 to 5,000,000	— Seven Stores

Our junior department stores are in the volume classification of less than $1,000,000 (with the exception of one store which is slightly above $1,000,000).

The sales in the small appliance stores averaged about $80,000 per store.

BASIC POLICIES

We pointed out in our report of a year ago that your Company operates quite differently from the average or typical department store and the difference stems from several basic policies of the Company. These policies are such

a fundamental part of our business philosophy that we are repeating them here, as they also apply in every respect to the operations of the year just closed.

First, we believe in pricing our goods to meet the competition of the stores in our localities which sell at the lowest prices for comparable values. It is our experience that generally speaking, and with some exceptions, the chain stores are the businesses which do sell at the lowest prices in our communities. The result of following this low price policy is that the mark-up percentage for our Company (by mark-up percentage is meant the profit spread or difference between cost and the retail price put on goods for sale) is definitely lower than that of department stores in general as evidenced by mark-up figures published by such sources as Harvard University Graduate School of Business Administration and National Retail Dry Goods Association (NRDGA).

Selling goods at low prices cannot be continued profitably unless goods are bought advantageously as is done by successful chain stores. This requires centralized buying and to a considerable extent centralized merchandising and planning. Your Company has been perfecting for some years now the organization necessary to operate in this manner.

Finally, to compete in prices with chain stores, and still operate profitably, operating expenses must be kept lower than those of the average department store. The expense ratio to sales of your Company has been definitely lower than that of the average department store (again referring to published figures from generally recognized sources).

Another basic policy of your Company (which was not brought out in the report of last year) relates to promoting employees from within the Company to positions of responsibility rather than going outside the Company to fill such positions as changes occur from time to time. For such a policy to work well, it is, of course, necessary that the younger people coming into the Company be of good caliber and potentially able to develop into top people. To accomplish this, we have had a trainee program in operation for some time under which young people who appear to have promise of real ability are employed. For the most part we get these people from college graduating classes, and their progress in the Company is carefully watched. There are, of course, casualties in that many never do develop into top people, but a considerable number do. For a number of years past, we have not gone outside of the Company to fill an important position.

EXPANSION

Three new junior department stores were opened during the year just closed. These stores are located in Muskogee, Oklahoma, Pittston, Pennsylvania, and Robinson, Illinois. This is a continuation of the policy followed during the past several years of moderate expansion of your Company.

We continue to be of the opinion that our junior department stores are a very important part of the Company's operations and that over the years these stores will contribute a substantial part of the profit in our Company. Additional locations are decided upon on a very selective basis. As this report is written arrangements have been completed for four additional stores. One of these stores, located in Kansas City, Missouri, was opened on March 24, 1949, and the start of operations was satisfactory to the management. Leases have been signed also for a store in Columbia, South Carolina, and for a location in Freemont, Ohio. A lease is about to be signed for a store in Aurora, Colorado.

There was practically no change during the year in the number of small household appliance stores operated by the Company.

As of January 31, 1949, your Company was operating seventeen large department stores, thirty-one junior department stores and sixty-five smaller stores selling household appliances.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

Additions to our physical properties were made during the year aggregating $3,554,507. Of this total, $1,048,740 was paid for real estate consisting of the main store property and a warehouse in Hamilton, Ontario, Canada, and one smaller building occupied by our store in Louisville, Kentucky. The purchase agreement for the Canadian store was made in December, 1947, and title to the property taken in October, 1948, the details of which were given in our report of last year. These buildings were rented by us prior to purchasing.

Apart from these real estate purchases, the Company spent $2,505,767 for new fixtures and building improvements. Of this total, $717,825 was on junior store properties and the balance of $1,787,942 on the seventeen large department stores and appliance stores (only a negligible amount related to the appliance stores).

Repairs to our properties, not included in the figures given above, amount to $762,365 for the year of which $40,245 was for repairs in junior department stores.

We have continued our policy of maintaining the properties in a good state of repair and have spent money to enable our stores to keep abreast of our competitors in the various localities. It continues to be our policy to maintain clean, attractive stores, but to avoid spending money for what might be called "fancy" fixtures or improvements.

PROFIT SHARING PLAN

The year just closed was the eighth year in which the Company's Profit Sharing Plan has been operating, with the basic feature of the Plan unchanged during that time. The principle of offering to our people a direct incentive to handle their jobs so that more profit is produced for the Company is unquestionably sound, in our opinion.

Under the Plan, payments amounting to $1,872,029 were made to 1,152 people for the current year. This compares with $1,736,900 paid to 1,067 employees for the previous year.

PENSION PLAN

The Company has a relatively modest Pension Plan which has been operating now for four years. The number of employees included in the Plan has been gradually increasing since its inception as more employees have become eligible. There were 430 employees included in the Plan at the end of the current year. The Company's contribution to the Plan for the year just closed was $206,493 which amount has been paid over to the Trustee, City Bank Farmers Trust Company. The Company's contribution for the previous year was $193,842.

The amount held by the Trustee in the Fund at the end of the current year (including the contribution for the current year) was $654,750.

$5,000,000 LOAN

For several years prior to 1948, the Company borrowed various sums from banks during the Spring of the year, when cash was needed, and repaid such loans in December or January of the same fiscal year. The amount of working

capital in our Company during those years was close to the minimum required to operate. In July, 1948, the Company borrowed $5,000,000 from Metropolitan Life Insurance Company to be repaid over a term of twenty years. The following is a brief summary of the terms of the loan.

Amount	$5,000,000
Term	20 years
Interest Rate	3⅜% per annum
Required Amortization	$250,000 annually

Privilege to Anticipate Payments

The Company can double the $250,000 in any one year without penalty.

If further anticipation is made — a premium is required at various rates which decline to zero during the last two years.

Restrictions on Other Borrowing

No restrictions on short-term loans.

On long-term loans, a formula is included in the agreement relating to current position, etc., which, using present figures, permits approximately $4,000,000 of additional long-term borrowing.

Restrictions on Dividends

No restrictions on the Preferred Stock presently outstanding.

Dividends not to exceed 70% of the net profit on a cumulative basis beginning February 1, 1948.

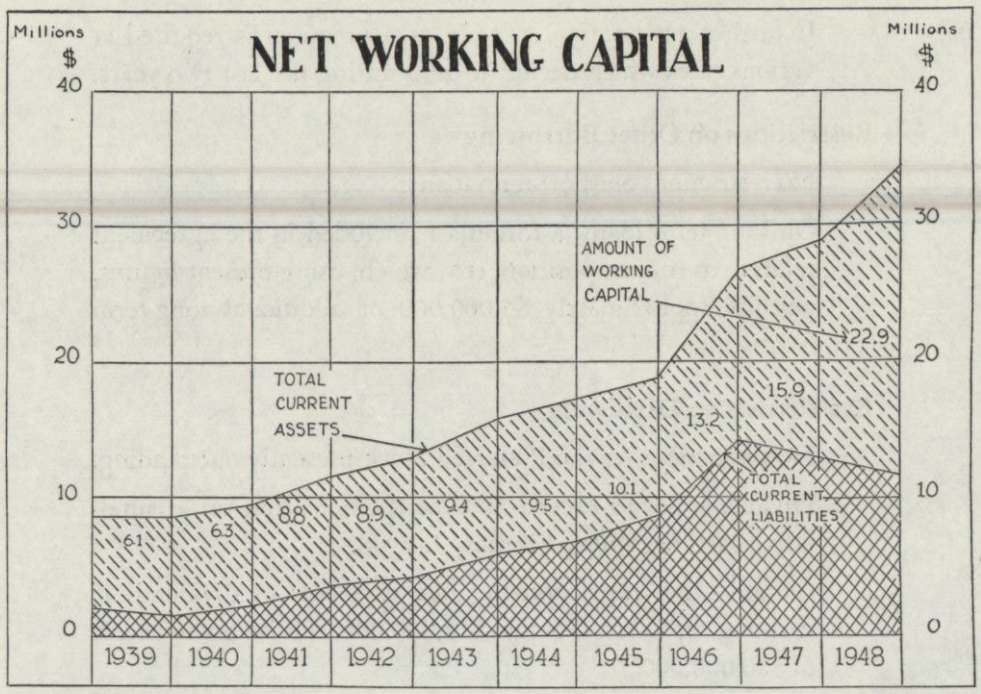
Certain other restrictions against payments of dividends if working capital falls below $12,000,000. (It is now in excess of $20,000,000.)

THE COMING YEAR

Sales for February, 1949, were 2% behind the previous year. Sales for March were 8.6% behind last year. March sales were adversely affected by the fact that Easter falls three weeks later this year. We anticipate that some of this sales decrease for March will be recaptured in April. Naturally this decrease in volume resulted in a sharp curtailment in profit. If this trend continues during the balance of the year, profits will inevitably be affected.

VARIOUS

The ratio of current assets to current liabilities was 3.1 to 1 at January 31, 1949, compared with 2.2 to 1 for the preceding year. The working capital was substantially increased during the current year by the loan from the insurance company. The working capital at the end of each year for the past ten years is shown in the chart below.



The earned surplus of the Company was increased during the year from $12,310,722 to $15,931,526 and the total surplus of the Company at January 31, 1949 amounted to $22,189,160.

The amount of customers' receivables, shown on the balance sheet at January 31, 1949, was $8,953,302 which was $2,471,437 larger than a year ago. The Company sells the larger part of its customers' installment contracts to a bank under an arrangement which has been operating satisfactorily for a number of years. The reserve for doubtful accounts was increased from $902,196 a year ago to the figure of $1,068,588 at January 31, 1949. The reserve is a generous one, in the opinion of the management, and the receivables are considered to be in a satisfactory condition.

The number of common stockholders in our Company was approximately 2,500 at the end of the current year compared with 2,600 a year ago.

The report of our auditors is given on the succeeding pages, and following that is an eleven year comparison of sales, earnings, and surplus together with a ten year comparison of balance sheets.

The management wishes to express its appreciation for the continued loyalty and cooperation of the Company's employees, without which little progress would have been made.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board

H. W. JOCKERS,
President

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:		
Cash		$ 6,434,661
Accounts receivable—		
Customers—		
Regular retail terms	$5,711,320	
Installment terms, including installments maturing after one year	1,933,467	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $7,056,287)	1,308,515	
Due from suppliers, etc.	649,824	
	$9,603,126	
Less—Reserve for doubtful accounts	1,068,588	8,534,538
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		18,028,742
Unexpired insurance premiums, prepaid rent, etc.		954,283
TOTAL CURRENT ASSETS		$33,952,224
Other Assets:		
U. S. Government securities deposited in escrow as guarantees of performance under leases, at cost	$ 177,820	
Post-war refund of Canadian excess profits taxes	88,000	
Other	12,936	278,756
Fixed Assets:		
Land and buildings owned, buildings on leased ground and leaseholds, and building improvements (property of a net book value of $221,411 is pledged to secure performance under a lease), at cost, less reserve for depreciation of $4,018,907	$6,719,108	
Store fixtures, etc., at cost, less reserve for depreciation of $2,267,215	5,626,071	12,345,179
		$46,576,159

NOTE: Under a loan agreement, dividends on come (less preferred dividends) earned lative basis. At January 31, 1949, earnings

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1949

LIABILITIES

Current Liabilities:			
Accounts payable			$ 4,928,462
Accrued taxes (other than Federal income), salaries, rent, etc.			3,053,785
Reserve for Federal income taxes (less U. S. Treasury Savings Notes, $800,000)			2,527,632
Current maturities of notes payable			545,000
TOTAL CURRENT LIABILITIES			$11,054,879
Long-Term Debt:			
Notes payable, 3⅜%, due $250,000 annually, starting May 1, 1950		$ 4,750,000	
Other notes payable (including mortgage notes payable, $675,000)		925,000	5,675,000
Deferred Carrying Charges on Installment Accounts			395,980
Reserve for Possible Future Decline in Market Value of Inventories and Other Contingencies			1,500,000
Capital Stock and Surplus:			
Capital stock—			
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—			
Authorized and issued, 10,410 shares	$1,041,000		
Less—Held in treasury, 7,110 shares	711,000		
Outstanding, 3,300 shares		$ 330,000	
Common stock, par value $3.66⅔ per share—			
Authorized and issued, 1,582,380 shares	$5,802,060		
Less—Held in treasury, 101,160 shares	370,920		
Outstanding 1,481,220 shares		5,431,140	
Surplus prior to February 1, 1935 (no change during year)		6,257,634	
Earned surplus since February 1, 1935		15,931,526	27,950,300
			$46,576,159

the common stock are limited to 70% of net in-
subsequent to January 31, 1948, on a cumu-
free of this restriction were $2,082,786.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ended January 31, 1949

PROFIT AND LOSS

Net sales, including sales of leased departments		$119,091,512
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $1,157,497		111,353,533
Operating profit		$ 7,737,979
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)	$ 880,032	
Less—Interest expense	248,286	631,746
Profit before provision for income taxes		$ 8,369,725
Provision for income taxes:		
Federal income tax	$2,995,000	
State and Canadian taxes	248,000	3,243,000
Net profit for the year		$ 5,126,725

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1948		$ 12,310,722
Net profit for the year ended January 31, 1949		5,126,725
		$ 17,437,447
Dividends declared:		
Preferred stock—$7.00 per share	$ 24,701	
Common stock—$1.00 per share	1,481,220	1,505,921
Balance, January 31, 1949		$ 15,931,526

AUDITORS' REPORT

To the Board of Directors,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1949 and the related statements of consolidated profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1949 and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 4, 1949.

MERCANTILE STO

AND SUBSIDIARY

ELEVEN YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit
1949	$119,091,512	$ 8,369,725	$3,243,000	$5,126,725
1948	113,012,702	8,444,538	3,286,000	5,158,538
1947	103,007,184	10,800,760	4,618,000	4,682,760**
1946	74,407,149	5,894,901	4,084,000	1,810,901
1945	59,668,304	6,633,941	4,854,000	1,779,941
1944	50,277,807	4,700,875	3,276,760	1,424,115
1943	41,173,113	3,340,264	2,118,645	1,221,619
1942	34,867,853	1,912,941	812,165	1,100,776
1941	29,509,394	939,991	278,548	661,443
1940	27,619,565	274,646	72,059	202,587
1939	25,467,539	*486,264**	3,850	*490,114**

* Italics indicate loss or deficit.

** After deducting special provision of $1,500,000 for possible future decline in market

*** Principally dividends on common stock, annual dividends on preferred stock ranged from

RES COMPANY, INC.

COMPANIES

EARNINGS AND EARNED SURPLUS

Net Profit Per Common Share (After 10 for 1 Splitup in 1945)	Dividends Paid***	Earned Surplus (End of Year)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$3.44	$1,505,921	$15,931,526	$18.64
3.47	1,506,896	12,310,722	16.19
3.14	1,506,896	8,659,080	13.72
1.21	395,981	5,483,216	11.58
1.18	398,756	4,068,296	10.63
.94	405,106	2,687,111	9.69
.82	398,388	1,668,102	9.20
.73	330,631	844,871	8.58
.43	331,344	74,726	8.07
.11	42,504	*255,373**	7.85
*.36**	46,907	*415,456**	7.59

value of inventories and other contingencies.

$46,907 in earliest year to $24,701 in latest year.

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON

ASSETS	January 31, 1949	1948	1947	1946
Cash	$ 6,434,661	$ 3,349,732	$ 2,668,226	$ 3,058,809
Receivables, less Reserves	8,534,538	6,264,915	4,629,841	2,973,050
Merchandise Inventories	18,028,742	18,617,899	18,632,200	11,116,080
Prepaid Expenses	954,283	468,939	679,625	692,000
TOTAL CURRENT ASSETS	$33,952,224	$28,701,485	$26,609,892	$17,839,939
Other Assets	278,756	329,508	268,621	280,826
Fixed Assets (Net)	12,345,179	9,948,169	8,944,064	7,361,003
	$46,576,159	$38,979,162	$35,822,577	$25,481,768
LIABILITIES				
Current Liabilities	$11,054,879	$12,790,334	$13,404,957	$ 7,724,450
Long-Term Debt	5,675,000	95,000	105,000	115,000
Reserves and Deferred Income	1,895,980	1,727,532	1,597,966	103,528
Capital Stock	5,761,140	5,797,940	5,797,940	5,797,940
Surplus*	22,189,160	18,568,356	14,916,714	11,740,850
	$46,576,159	$38,979,162	$35,822,577	$25,481,768
Net Working Capital	$22,897,345	$15,911,151	$13,204,935	$10,115,489

* Includes surplus prior to February 1, 1935 of $6,257,634, unchanged during ten year period.

RES COMPANY, INC.

COMPANIES

OF BALANCE SHEETS

January 31,					
1945	*1944*	*1943*	*1942*	*1941*	*1940*
$ 3,542,395	$ 3,652,070	$ 2,551,575	$ 2,764,570	$ 1,582,371	$ 1,530,289
2,559,611	2,369,795	2,781,126	4,319,635	3,605,464	3,440,468
7,817,194	6,956,591	6,623,978	4,340,148	2,922,536	2,807,643
409,297	399,839	408,734	531,841	181,153	251,848
$14,328,497	$13,378,295	$12,365,413	$11,956,194	$ 8,291,524	$ 8,030,248
624,429	529,752	276,726	119,190	157,931	156,429
6,298,478	5,944,141	6,125,551	6,098,917	6,037,061	5,857,639
$21,251,404	$19,852,188	$18,767,690	$18,174,301	$14,486,516	$14,044,316
$ 4,866,107	$ 3,963,093	$ 3,514,212	$ 3,169,427	$ 1,951,782	$ 1,916,609
125,000	800,000	1,200,000	1,600,000	—	—
135,439	187,922	247,391	342,799	241,416	150,000
5,798,928	5,956,428	5,880,351	5,959,570	5,960,958	5,975,446
10,325,930	8,944,745	7,925,736	7,102,505	6,332,360	6,002,261
$21,251,404	$19,852,188	$18,767,690	$18,174,301	$14,486,516	$14,044,316
$ 9,462,390	$ 9,415,202	$ 8,851,201	$ 8,786,767	$ 6,339,742	$ 6,113,639